LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6657 **NOTE PREPARED:** Jan 30, 2013
BILL NUMBER: SB 275 **BILL AMENDED:**

SUBJECT: Property Tax Installment Payments.

FIRST AUTHOR: Sen. Miller Patricia **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows any person who does not pay property taxes through an escrow account maintained by the person's mortgagee to pay the person's property taxes on a monthly payment plan. It provides that the county option monthly payment plan provisions in current law for payment of property tax expire February 1, 2014. It provides that the county option monthly payment provisions in current law for payment of property tax owed in connection with provisional property tax statements expire January 1, 2014.

Effective Date: July 1, 2013.

Explanation of State Expenditures: Under the bill, the Department of Local Government Finance (DLGF) has to prescribe two forms containing information on the monthly payment plan. The department should be able to complete this task within existing resources.

The first form (the enrollment form) explains the monthly payment plan, the penalties that could be incurred, the reconciliation procedures to be used at the end of the payment period, and how the taxpayer may stop using the monthly payment plan. It also has a suggested monthly deduction.

The second form (the payment form) authorizes the financial institution to deduct the monthly payment from the taxpayers's account, and the day of the month the payment would be deducted. This form would also be used to terminate an existing monthly payment plan of the taxpayer.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Summary:* The annual statewide cost of mailing the forms required by this bill to each eligible taxpayer would be a maximum of approximately $416,000 (based on $1 per mailing and processing costs and 4.1 million property tax payers). The cost would be reduced by taxpayers who currently are using escrow payments through a mortgagee, and those deemed ineligible by the auditor. Initially, counties would also incur a one-time cost of having the forms available to taxpayers who request them.

On the other hand, counties that currently have a monthly payment plan may save the cost of mailing reconciling statements if they currently do so separately from the tax bill. Under this bill, these counties would have to mail the reconciling statement when they mail the tax bill. If they elect to mail both in the same package, they could save on the postage costs of mailing the reconciling statement separately.

Currently, only about five counties have an official monthly payment plan in place (Allen, Howard, Marion, Wayne, and Whitley). The remaining counties would incur the administrative costs of establishing a plan with a financial institution. For example, one county treasurer, whose county currently does not have a monthly plan, indicated that charge would be $10,500 for the first year, $11,900 for the second year, and a reduced amount in subsequent years. In the first year, the financial institution would bill at a rate of $0.15 per parcel based on approximately 70,000 tax bills; in the second year, the rate would be $0.17 per parcel; in the third year, the bill would be based on those taking part in the program. Many counties accept partial payments, but it appears to be on a case-by-case basis. Some counties have formal arrangements with taxpayers to make partial payments.

(Revised) *Additional Information*

Under current law, a county can choose to adopt an ordinance which permits a taxpayer to pay property taxes (including provisional tax payments and tax payments due under a reconciling statement) by automatic monthly deductions from an account of the taxpayer held by a financial institution, or some other monthly installment plan.

Under this bill, for property taxes first due and payable in 2014 and after, the option of having a monthly installment plan would be rescinded, and instead each county would be required to have a monthly installment plan in place. The taxpayer may elect to use the monthly option but would not be required to do so.

Under the bill, after November 2013, all taxpayers who do not pay their property taxes via an escrow account would be eligible to participate in the monthly installment plan. If the taxpayer is already in a monthly payment plan, the bill would terminate this agreement and automatically enroll the taxpayer into the new monthly plan. The county treasurer is to issue a final reconciling statement to these taxpayers before December 15, 2013.

A taxpayer who is not currently enrolled in a monthly plan and who wishes to participate in a plan under this bill would have to submit an enrollment form (prescribed by the DLGF) to the county treasurer. Counties are required to have the enrollment and payment forms available to a taxpayer after September 2013. Each year, starting in 2014 (before August 1), the county treasurer would have to prepare and mail the forms to each taxpayer who either is currently in a monthly payment plan, or who is eligible to participate in one.

The bill differs from current law in when counties are required to transmit reconciling statements to those taxpayers who are in a monthly payment plan. Under the current statute, a reconciling statement is issued after the last monthly payment for the current year has been made. It compares the total monthly payments to the current year's property taxes. If the monthly payments exceed the amount due, the taxpayer would either receive a refund or have it applied to the following year's taxes; the taxpayer would pay the difference within 30 days if the total monthly payments were not enough.

Under the bill, reconciling statements would be issued when tax bills are transmitted. The bill introduces the concept of a reconciliation statement period. The first such period would be from the time a taxpayer elects to participate in the monthly plan (either automatically or by choice) to the date the next tax bill is issued. Subsequent periods would cover the time between the issuance of tax bills. The taxpayer would be required to make monthly payments during each reconciliation statement period. Receiving a tax bill signals the end of the statement period. A reconciliation statement would accompany each tax bill and, if applicable, the taxpayer would be liable for any additional taxes within 30 days of receipt of the statement. Once the tax bill is received, a new reconciliation statement period starts.

For example, assume that the taxpayer is already on a monthly installment plan under current law. After November 30, 2013, the taxpayer would be automatically transferred to the monthly payment plan under this bill. Before December 15, 2013, the taxpayer would receive a final reconciliation statement from the county that would settle all accounts under the previous monthly payment plan. For this particular type of taxpayer, a reconciliation statement period would begin when the automatic transfer took place. This period would end when the taxpayer receives the 2014 tax bill in April 2014. The taxpayer would settle accounts based upon the monthly payments made between December 2013 and April 2014 and pay the difference or receive a refund as applicable.

The next reconciling statement period would begin in April 2014 and would end April 2015 when tax bills for property taxes payable in 2015 would be sent out. As a result, under current law, the comparable reconciling statement period covers tax payments (May and November) in the same tax year. Under this bill, the period would cover payments in two different tax years (in November of the first year; in May of the following year).

Explanation of Local Revenues: If more taxpayers elect to make monthly payments, the counties will receive revenue monthly rather than payments twice a year. As a result, a county may need to borrow less funds for its operational use, thereby lowering its interest costs. The amount of savings would depend on the amount of monthly payments made by taxpayers.

State Agencies Affected: DLGF

Local Agencies Affected: County treasurers

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